



October 26, 2016

Terry Cowles
Director of Customer Focused Government
Chairman, Facilities Management Steering Committee
312 Rosa L. Parks Ave.
Tennessee Tower, 16th Floor
Nashville, TN 37243

Dear Director Cowles,

As authorized by the Facilities Management (FM) Steering Committee, KraftCPAs PLLC (Kraft) has completed their inspection of the Business Justification Report as per the Real Estate Cost Review contract. Kraft has issued their draft Independent Accountant's Report on Applying Agreed-Upon Procedures (Report) for review and approval by the Steering Committee. Please find attached their Report which presents the findings from their performance of the agreed upon procedures as requested. Kraft will be presenting the report at the upcoming FM Steering Committee meeting on Wednesday, October 26th.

To assist the Steering Committee in understanding the findings presented in the draft Report, the FM Core Team has reviewed the findings and compared them with the data provided to Kraft that was used in the performance of the agreed upon procedures in order to provide the following comments in response to the findings. The responses are organized using the same numbering system as in Kraft's draft Report.

Agreed Upon Procedure 1, Findings:

- I. Tennessee Board of Regents (TBR) System used Facilities Inventory and Classification Manual (FICM) codes in place of HEGIS codes for the TBR assigned space types.
- II. University of Tennessee-Martin (UTM) did not use the University of Tennessee System (UT System) assigned Whitestone space types in 23 instances.
- III. University of Tennessee Health Sciences Center (UTHSC) did not use UT System assigned Whitestone space types in five instances.

Core Team Response:

As described on page 29 of the FM Business Justification Report, the respective entities selected the space types utilized. While TBR used FICM codes rather than HEGIS codes, assuming the selected space types were comparable, this finding would have no effect on the Business Justification Report outcome.

Agreed Upon Procedure 2, Finding:

- I. The database information at Volunteer State Community College (VSCC) has not been updated for over nine years.



Core Team Response:

The effect of this is unknown, but should not be material to the Business Justification Report outcome.

Agreed Upon Procedure 3, Findings:

- I. TBR selected a universally conservative approach.
- II. University of Tennessee-Knoxville (UTK) created blended rates for use by UT System.
- III. FM Core Team assigned rates for General Government properties.
- IV. UTM used a blended Medium/Low rate for certain spaces.

Core Team Response:

As described on page 28 of the Business Justification Report, the respective entities subjectively selected the rates utilized. Assuming the selected rates were appropriate, this finding would have no effect on the Business Justification Report outcome.

Agreed Upon Procedure 4, Findings:

I, II, III. UTM included several items in their actual costs that were to be excluded. In some cases, they were unable to individually separate and exclude items.

Core Team Response:

UTM's overall cost per square foot ratio was below the 32 percent used as the baseline for the Business Justification Report, resulting in a negative projected savings. When combined with the second finding of Agreed Upon Procedure 1 above, their result might now show a savings potential, but the overall effect to the Business Justification Report outcome would likely not be material.

Agreed Upon Procedure 5, Finding:

- I. Austin Peay State University (APSU) had submitted adjustments of \$1,634,794 to actual costs after the Business Justification Report was published. Those adjustments would have reduced their potential savings by that amount.

Core Team Response:

This finding's results will be used in adjusting the Business Justification Report's potential savings projection on page 37, to the revised amount in the graphic below.

Agreed Upon Procedure 7, Finding:

- I. UTHSC excluded security from Whitestone.

Core Team Response:

If there were security costs in their actual costs, it would change the projected savings. If there were no security costs in their actual costs, then excluding them from Whitestone was appropriate.



II. TBR selected a universally conservative approach, and did not add any cost adjustments.

Core Team Response:

As described on page 30 of the Business Justification Report, the respective entities determined what cost adjustments to utilize. Assuming the determinations were appropriate, this finding would have no effect on the Business Justification Report outcome.

Agreed Upon Procedure 12, Finding:

- I. TBR entered an incorrect Whitestone cost value for M&R for the “Store Retail” space type in their data table. Correcting this entry reduces the projected savings by \$67,804.

Core Team Response:

This finding’s results will be used in adjusting the Business Justification Report’s potential savings projection on page 37, to the revised amount in the graphic below.

- II. TBR entered incorrect values for Whitestone local cost indexes for two locations in three categories. Correcting these entries resulted in lowering the Whitestone cost per square foot for the institutions in the Chattanooga and Knoxville areas resulting in increasing the projected savings estimates for these institutions by \$330,358.

Core Team Response:

This finding’s results will be used in adjusting the Business Justification Report’s potential savings projection on page 37, to the revised amount in the graphic below.

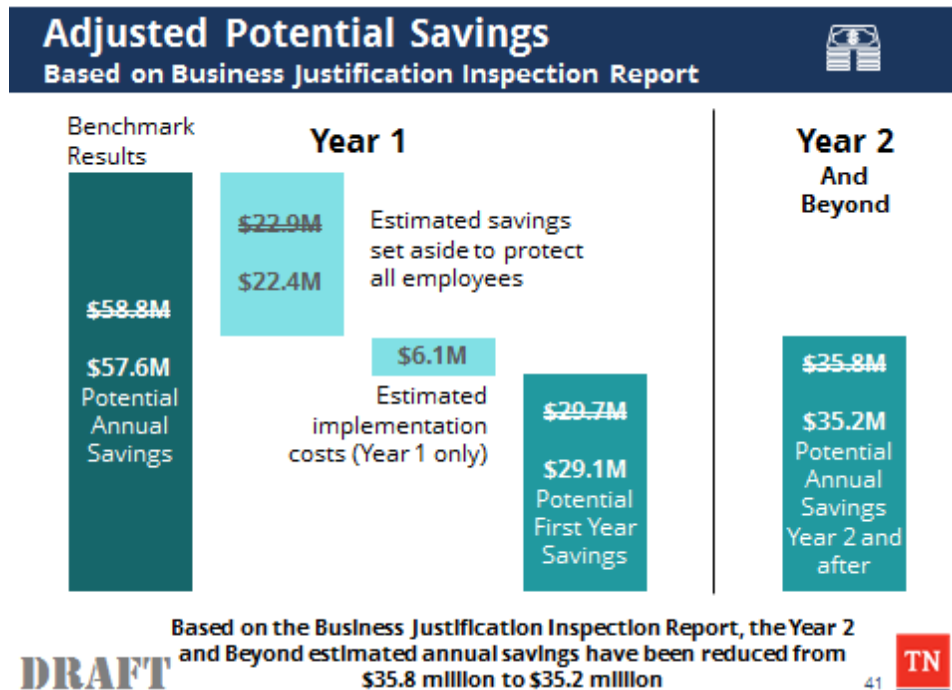
Summary of Core Team Responses on Report Findings

When all identified adjustments were made to the TBR information, the total adjustment to the Business Justification Report overall Potential Annual Savings for Benchmark Results decreased by \$1.23 million bringing the total to \$57.6 million instead of \$58.8 million. The Year 2 and beyond potential estimated annual savings is \$35.2 million instead of \$35.8 million.

<u>Finding</u>	<u>Entity</u>	<u>Adjustment</u>
5.1	APSU	\$(1.63) M
12.1	Retail TBR	0.07 M
12.11	<u>Local Indexes TBR</u>	<u>0.33 M</u>
	Total	<u><u>\$(1.23) M</u></u>



The net adjustment to the overall projected savings is shown in the graphic below:



As we continue with the ongoing multi-step procurement process of gathering information from qualified FM service providers, the most critical data in the Business Justification Report is the actual baseline spend per square foot for each entity. This is the data that will be used to compare to a proposal from a service provider. It should be noted that there were no significant findings to the baseline spend per square foot data used in the Business Justification Report. The Whitestone Industry Benchmark Index was used as a point of reference to help understand whether there was a potential savings; as entities choose to request a provider proposal to compare with their actual costs, further utilization of that index will no longer be necessary.

In conclusion, we hope the above responses are helpful in understanding the findings in the attached Kraft draft Report.

Sincerely,

Facility Management Core Team

Mike Ledyard, CFG, Tennessee Department of Finance and Administration
Ann McGauren, STREAM, Tennessee Department of General Services
David Zettergren, University of Memphis, and TBR System Representative
Katie Lillard, CFG, Tennessee Department of Finance and Administration
Randy Leatherwood, STREAM, Tennessee Department of General Services
Richard Brown, UT Chattanooga, and UT System Representative
Susie Tucker, CFG, Tennessee Department of Finance and Administration
Trey Norris, CPO, Tennessee Department of General Services